



Center for Social & Economic Research

Ownership Transformation in Polish Agriculture

in the years 1992-1994

by

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Agricultural Property Agency of the State Treasury

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Materials published in this series have a character of working papers which can be a subject of further publications in the future. The views and opinions expressed here reflect Authors' point of view and not necessary those of CASE .

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Introduction

At the point of introducing economic reforms in 1990 aimed at the transformation from a centrally planned to a market economy, Polish agriculture was in a different situation than other branches of the national economy. The dominant form of ownership in agriculture was private ownership. Family farms occupied 14.2 million ha, which represented 76.2% of all agricultural land in the country. The family farms were characterized by dispersed structural farming, the resulting high level of employment, as well as excessive fixed property by many farms. The average area of agricultural land in the farm amounted to 6.3 ha and the total number of individual farms was 2.1 million. The level of employment measured by the number of fully employed persons was 24.9 people per 100 ha of agricultural land.

The second group of farms were the state-owned agricultural enterprises (ppgr), which utilized 18.7% of the agricultural land in the country, with an average area for an enterprise of 2800 ha. The average share does not reflect the significance of the ppgr in using the land resources, due to the fact that the strong regional differentiation has not been taken into account. In the northern and western voivodships the share of the ppgr in utilizing the land was significant and amounted to 30-40%. Meanwhile in 17 voivodships, mainly central and southern ones, that share did not exceed 5%. The share of the public sector in employment was somewhat smaller than in the use of agricultural land and amounted to 10.4%. Overall, about 470 thousand people were employed in the ppgr, which gives 13.4 people per 100 ha of agricultural land. Together with the families of the workers, the number of people related to the public sector in agriculture reached 2 million.

The third group of farms were the cooperative farms. In the hands of the agriculture production co-ops were 3.6% of agricultural land, with an average area of 300 ha. Due to the forms of organization, the management system, as well as the financial and economic system, they were more akin to the state farms than to the family farms.

From the presented data, it is apparent that two sectors dominated Polish agriculture, with significant differences in the scale of production, the level of technology, as well as the form of ownership. Each of these sectors is characterized by specific weaknesses, the overcoming of which is a condition for its further development. In relation to individual farming it is, above all, the dispersed structural farming. The major weaknesses of the state sector are excessive unemployment, overinvestment in buildings, the overburdening of

social functions, as well as the overextended and difficult to manage organizational structures.

At the start of the implementation of the stabilization program, the agricultural sector, especially the state-owned, was heavily protected and subsidized. Agriculture existed in conditions of set prices for agricultural products and basic means of production guaranteed by the state, ensuring the profitability of farms in the level of 90-100% of profits achieved by employees of non-agricultural sectors. Investment in agriculture was fostered by the low interest rates of bank credits for this sector. The sudden political and economic changes coincided with a difficult macroeconomic situation and led to a national decline in demand for food. This was accompanied by bank credits being brought to a real level. Furthermore, the industrial enterprises involved in the processing of agricultural goods, the monopolists in supplying, selling, and processing, reacted to the changes by raising the prices of the means of production on the one hand, and the lowering of prices paid to the agricultural producers, on the other. State enterprises found themselves in a particularly difficult situation, which resulted from the following reasons (Guzewicz 1993):

- the high level of indebtedness, especially to banks,
- a weak motivational system which was not directed at raising the interest of workers in improving economic results, particularly lowering the costs of production,
- a fairly inefficient organizational and management system which caused the large units to be insensitive to market signals and have difficulty in adapting to the changing market situation,
- the excessive burdening of farms with social costs of the workers.

In effect, the stabilization program did not force most enterprises into the necessary adaptive actions, which in turn brought them to the brink of bankruptcy. With the hope of restraining the deepening crisis in state agriculture, steps were taken to restructure and privatize the enterprises.

The direction of these changes cannot, however, not take into account the problems of integrating Polish agriculture with the European Union (EU). It is certain that the structural similarities should make that integration easier. It is therefore important to what extent the restructuring of the ppgr can:

- effect the strengthening of the dispersed family farm sector, on which the agriculture of the EU countries is based,

- facilitate the functioning of large-scale farms (more than 100 ha) which account for 23% of all farms in the EU, with the average farm area of 198 ha (Poczta 1993)
- increase the role of renting as a form of utilizing land, which in the EU is common practice and encompasses nearly one-third of all farms.

1. Agricultural Property Agency of the State Treasury - aims and methods

Due to the legal and financial barriers, it was impossible to activate the privatization process in agriculture based on the 1990 law on privatizing state enterprises, which regulated the processes of ownership transformation in the entire economy. Therefore, ownership changes in agriculture began with an almost two year delay, as separate legal regulations proved necessary. Their result was the establishment on January 1, 1992 of the Agricultural Property Agency of the State Treasury. This agency is a trustee institution to which the State Treasury entrusted the execution of ownership rights and other real rights in relation to state property in agriculture. The agency was obliged to execute the duties confined to them on a self-financing basis. This implies the necessity of balancing expenditures mainly related with the payment of obligations made by state enterprises and resulting from the execution of duties, with revenues gained by distributing seized property. This signifies a departure from the method of ownership transformation executed by organs of the state administration which are financed by budgetary means which has been utilized in the remaining sectors of the national economy.

The Agency follows the aims of the national economic policy in relation to agriculture, therefore it is supervised by the Minister of Agriculture and Food Economy. The main duties performed by the Agency include in particular:

- creating conditions fostering the rational utilization of production potential of State Treasury stock,
- restructuring and privatization of state property utilized for agricultural aims,
- trading of real estate and other factors of state property allocated for agricultural aims,
- administrating the state property resources appropriated for agriculture,

- creating farms,
- securing property of the State Treasury,
- performing agricultural work on state-owned land and supporting the organization of private farms on state-owned lands,
- creating jobs in relation to the restructuring of the agricultural economy.

From among the above mentioned duties, restructuring and privatization of seized property has become fundamental. This is due to the fact that they are a condition for the realization of the remaining duties, both from a substantive and especially from a financial side. The realization of the mentioned duties is helped by the relatively large freedom in administration of the property seized by the agency. The agency can sell, rent, contribute as an initial share into a company, and enter into managerial contracts. Furthermore, in cases justified by economic considerations, it is possible to let land lie fallow or gratuitously transfer lands to the State Forests for tree planting. There is also a possibility of transferring the agricultural property of the State Treasury free of charge to local administrations for infrastructural investments. To facilitate the execution of the Agency's duties, 15 regional offices have been established which work in an area from 1 to 7 voivodships, depending on the share of state property in managing the lands.

Already in preparing the law the authors saw a conflict which could develop during the functioning of the agency. This conflict is a result of a certain duality of character of this institution. On the one hand, the agency is a typical, commercial economic unit illustrated by the self-financing basis on which it operates, on the other it is obliged to execute administratively appointed duties requiring financial means. Therefore, there is a need for great caution in transferring duties to the Agency which were previously financed by the state budget. It can destroy the Agency's attempt at restraining and reversing negative occurrences which have appeared in the state agriculture sector.

The early stages of the Agency's functioning exposed another sharp conflict regarding the direction of restructuring and privatization of the property seized by the Agency. This conflict was a result of two opposing forms of farming: a family farm and a large-scale farm. In spite of the two years which have passed, this conflict has not been unequivocally resolved, perhaps due to the fact that the discussions focused more on the ideology than on arguments taking into account the existing realities. It can surely be stated, taking into account experiences of West European countries, that the main

The lack of experiences regarding transformation on such a large scale in a short period of time seems to indicate the necessity of searching for various solutions. This pertains not only to the direction of restructuring and transfer of land, but also to the units participating in the privatization process as well as the selection of the methods of managing the property.

The agency has been obliged to seize in the course of three years (1992-1994) all of the agricultural property of the State Treasury, covering some 4.6 million ha. To the end of September 1994, the agency has taken over 4.1 million ha, including 3.7 million ha from 1646 ppgr, transferred by the former managerial organs of these enterprises (voivodes, the Minister of Agriculture and Food Economy). From the area seized, the breakdown of the various groups is as follows:

- | | | |
|---|--------------------------|----------------------------|
| • | agricultural lands | 3 505 thousand ha. (84.7%) |
| | in that: | |
| | arable land | 2 727 thousand ha. |
| | grass land | 756 thousand ha. |
| • | forests and forest areas | 102 thousand ha. (2.5%) |
| • | areas underwater | 316 thousand ha. (7.6%) |
| • | other areas | 113 thousand ha. (2.7%) |
| • | non-usable | 105 thousand ha. (2.5%) |

Along with the land, the agency has taken over fixed assets with a net recorded value of 72 trillion Plz (17.6 million Plz/ha) as well as turnover

property valued at 12.9 trillion Plz (3.1 million Plz/ha), of which 8.7 trillion were credits and loans. The agency has also taken over 192.4 thousand employees, which gives 5.2 persons per 100 ha of agricultural land as well as 324.7 thousand factory apartments, 2700 historical objects, 829 distilleries, 692 fodder mixing plants, 539 grain silos, 261 slaughter houses and butcher shops and others.

After taking over the previously independent economic units into State Treasury stock, they lose their legal entity and become State Treasury farms, on a full internal self-supporting basis, managed by a temporary manager appointed by the Agency. His duty is the continuation of the current economic activity as well as the preparation of a management program for the property he is supervising. Such a situation creates a larger freedom in the execution of the clearly defined policy in relation to the property taken over, but does not always foster efficient current management. Therefore, it is important to limit the temporary time period to the bare minimum, which is not always easy due to the fact that the pace of transformation is often at odds with their quality.

3. Restructuring programs for the seized farms

For each of the farms taken over, a program of redistributing the property (restructuring program) is prepared. The aim of the prepared programs is the indication of the various solutions enabling the selection of the best, and the most realistic, method of managing the farm property from an economic, social, and legal point of view, while at the same time taking into account the goals of the agricultural policy as well as the realities of the regional location of the property being privatized. In relation to indebted farms, an important aim of the programs is the indication as to what degree it is possible to service the inherited debt, which is of significant importance at the negotiations with the creditors. As a result of the restructuring program prepared for each farm, the organized economic units able to function independently and the disorganized elements of property (plots of land, buildings, machines, etc.) are separated and the method for their management is defined. The prepared restructuring programs are analyzed by experts, trade unions, and local authorities, which limits the number of possible conflicts.

The proposed method of management for each farm requires a compromise between the conflicting expectations which accompany the ownership transformation process. In order to find such a solution, the

following criteria are taken into account during the preparation of the restructuring programs:

- the openness of the State Treasury stock, especially the agricultural land for the structural changes of private agriculture, meaning taking into account the demand for land from the individual farmers or the workers of the liquidated ppgr,
- the organizational and economic efficiency of economic units created based on the restructured enterprises. The created farms should have the factors of production proportioned in such a manner as to allow for effective activity in conditions of a market economy. This condition in practice signifies the necessity of liquidating the inefficient units which do not offer hope for achieving lasting profitability. The concept of organizational efficiency refers to the preference of farms which can be managed "from one hand", which ensures the elasticity indispensable in market economy conditions as well as an unequivocal responsibility of the managerial staff for the achieved results,
- the administration of the property of the restructured farm, such as the possibility of separating the disorganized elements of property i.e. plots of land, buildings, structures, machines and equipment, which can be administered independently through sale or renting,
- the separation of the housing elements with a possibility of selling them to the existing inhabitants on preferential terms,
- the need to take into account the social situation of a given region, especially in relation to the job market. Therefore the restructuring programs protecting places of employment are preferred,
- the discharging of land with a low agricultural value and transferring them for infrastructural aims or for foresting,
- taking into account the legal status of the property, particularly the submitted reprivatization claims, which in practice renders their administration through sale impossible,
- taking into account the financial situation of the restructuring farm, with a consideration of the payments of obligations burdening the farm. This condition in many cases signifies the necessity of long-term negotiations with the creditors aimed at restructuring the debt,

- the feasibility of the program meaning the analysis of the demand, which in practice signifies an initial appraisal of the offers submitted by the potential buyers or tenants.

When preparing the restructuring programs, the Agency follows criteria of economic efficiency, but at same time tries to consider the importance of employment matters. The goal is not to have the activities of the Agency lead to a radical increase in unemployment in rural areas. It is therefore important to treat the employment matters in correlation with the local job market when preparing the concept for managing the property.

4. Directions of redistributing the property taken over by the Agency

From the presented principles of the Agency it is apparent that the privatization of state farms is preceded by their restructuring, from which on the one hand economic units should be created based on the existing plants or objects with potential for efficient functioning, and on the other the land freed from the restructured farms should serve to enlarge the existing and create new family farms.

The ways of managing the seized property, as foreseen by the law, are in practice being utilized in varying degrees. At the end of September 1994, the situation of managing the seized property looked as follows:

- | | |
|------------------------|---------------------------|
| • temporary management | 1 704 thousand ha (41.6%) |
| • sale | 105 thousand ha (2.6%) |
| • renting | 1 776 thousand ha (43.3%) |
| • administrating | 256 thousand ha (6.2%) |
| • other | 299 thousand ha (6.3%) |

The existing method of redistributing the land taken over indicates that for each 100 ha that has so far been managed by the Agency: 4.3 ha changed owners, 72.9 ha was rented out, 10.5 ha was transferred into administrating, and 12.3 ha was managed in another manner. Similar to the preparation of the restructuring program, economic criteria decides about the selection of the buyers, tenants, or administrators. Both buyers and tenants are selected through tender. The selection of an administrator is also done by a tender. The basic form of tender, based on the governing law, is an auction tender. A

competitive tender is used in selecting buyers or tenants for property organized into farms (land, buildings, fixed and turnover property). The subject of the competitive tender is not only the price or the rent, but also a number of other elements which on the one hand are a condition of proper management, and on the other secure the interests of the workers taken over by the sale or rent as well as the interest of the Agency, as a representative of the State Treasury.

Sale and renting are the directions preferred by the Agency in redistributing property. A sale creates the best conditions for rational management (especially in Polish conditions where the concept of ownership has had a significant meaning in the last few decades) and at the same time it signifies an inflow of financial revenue which is crucial for the realization of the Agency's other duties and it also allows for a decrease in the inherited debt. The property of the farm can be sold together or separately, depending on the solution accepted in the restructuring program. Such a form of redistribution signifies an actual privatization of state property and is in accord with state policy, which anticipates a decrease of that form of ownership in the entire economy, including agriculture. There exists, however, a capital barrier which has been confirmed by the activities of the Agency in this field. Until the end of September 1994, approximately 14 thousand agreements for the sale of property have been signed, encompassing an area of 105 thousand ha. 99% of the agreements dealt with properties up to 100 ha. Most of the sold property with an area of up to 100 ha is open and in most cases went to increase the size of existing family farms. The average area of the sold property of up to 100 ha was 4 ha. In some cases the sale of property of more than 100 ha was executed as a form of compensation for debt and therefore was forced by the situation rather than a decision resulting from a preferred direction of restructuring. There is also a slow pace in the sale of property, in spite of the Agency's policy which allows the payment for it in rates, with interest rates at 1/4 of the current discount rate (currently 28% annually). The causes of this situation stem directly from the difficult economic situation in agriculture in general. An additional difficulty in the permanent redistribution of lands is a lack of a reprivatization law and a clear definition of the method of recompensation for the property seized from private owners by the State Treasury. This situation has caused that the main method of managing the lands by the agency has become renting, which does not transfer ownership but it does provide the conditions which are crucial for independent managing and can in fact be considered a privatization of management. In the renting of property with a simultaneous purchase of working assets and fixed movable assets, the financial commitment of the investor is much smaller than in a purchase. Therefore, in a situation of a lack of capital many investors select this method of management. This particularly

pertains to the companies created by the existing workers or managers of the privatized farms. Until the end of September 1994, the agency has entered into approximately 90 thousand agreements covering a total area of 1776 thousand ha. 98% of all these agreements pertained to property not exceeding 100 ha. In analyzing the particular area groups of the tenants, it should be noted that 25% of the land ended up in existing family farms. This signifies that about 110 thousand farmers on average increased their farms by 4 ha through renting. If we then look at the renting of land from state resources, it is apparent that only a narrow group of farmers can benefit from it, if the enlargement of the farm is to have a significant effect from the point of view of improving the effectiveness of the farm. A second group of rented property is comprised of land with buildings on it, which in the majority of cases are new farms, though there are cases where the tenants are farmers who already have their own farms. From among the rental agreements for property exceeding 100 ha, nearly 50% were signed with legal persons, among which the majority are companies with shares held by workers. The second group is the managerial staff of the liquidated ppgr, individual farmers, and private entrepreneurs. As a result of restructuring, the area of a large-scale farm has decreased dramatically, from 2250 ha at the time of being seized by the agency, to about 600 ha after the restructuring. Assuming that the current tendencies in the process of restructuring the seized property will remain the same, it can be expected that a total of about 240 thousand family farms will increase their areas on average by about 4 ha through the renting of land. At the same time approximately 4500 new farms with an area exceeding 100 ha will be created, which will rent 2600 thousand ha including:

- 2700 farms with an area from 100 to 500 ha, which will rent 700 thousand ha,
- 1200 farms with an area from 500 to 1000 ha, which will rent 840 thousand ha,
- 600 farms with an area exceeding 1000 ha, which will rent 1060 ha.

In most of the rental agreements for lands with buildings on them, there is a provision for a possibility of excluding part of the land during the time period of the agreements. This means that over the next 10 years, an additional 10% of the land (350 thousand ha) will be provided to enlarge existing family farms.

The next method of managing property can be its contribution as an initial share in a company. This form of managing has been foreseen mainly for restructured breeding farms: 52 plant and 77 animal, considered by the Minister of Agriculture and the Food Economy as especially important to the

national economy. This form guarantees state control over the breeding farm, which represents a source of biological advancement in the entire agricultural sector, and at the same time creates conditions for a managerial administration of the remaining economic units. It is foreseen that this type of transformation will encompass about 120 farms. Until the end of August 1994, 64 limited liability companies have been registered, in which the Agency is the sole share-holder.

The law of October 19, 1991 also allows for a negotiation of agreements for administration. It is a form of a managerial contract, the aim of which is making the management of a State Treasury farm more efficient. So far 155 administered farms have been created with an area of 256 thousand ha. It is assumed that the administration agreements have a transitory character and in the future will be replaced by renting.

The restructuring of the property seized from the liquidation of ppgr leads then to a significant increase in the number of economic units which have a chance of benefiting from the scale of production. This applies to both family farms which have enlarged the area of their farm, as well as large-scale farms which are benefiting from a hired labor force.

The utilization of these possibilities has been confirmed by analyses performed by the Institute of Agricultural and Food Economy. They indicate that the ownership transformations of the ppgr cause significant changes in the organizational, management, and motivational spheres, leading to a clear improvement in the efficiency in running the farms.

Taking into account the pace and direction of the transformations so far, it can be expected that before the end of 1995 the entire property seized by the Agency will be administered in the following manner: sale - 200 thousand ha (5%), renting - 3300 thousand ha (73%), administering - 500 thousand ha (10%), other forms of management - 550 thousand ha (12%), in which 300 thousand ha will lie fallow.

5. The problem of unemployment in state agriculture

The number of unemployed exposed as a result of transformation in the ppgr is estimated at about 100 thousand, which constitutes about 4% of the unemployment in the country. In spite of a relatively small number of unemployed, the scale nonetheless represents a serious social, economic, and mainly moral problem. This problem especially pertains to the Northeastern, Northern, and Western parts of Poland, where the ppgr were most often the

only sources of employment and the released workers lost the opportunity of any employment.

The Agency has taken a number of steps to limit the release of workers during the restructuring of property, as well as in supporting the creation of new places of employment.

These activities are concentrated on:

- maintaining the existing level of employment until the program for restructuring the liquidated ppgr is prepared,
- influencing the buyers and tenants of property through:
 - a) acknowledging the declared size of employment as one of the criteria in selecting offers for the purchase or rent of property,
 - b) suggesting that new employers prepare employment agreements for the workers before the official cancellation of employment with the Agency,
 - c) including the possibility of continuing investment creating new places of employment in agreements with the tenants,
 - the management of fallow lands, including a free loan of them for a period of one year,
 - the separation, within the framework of the restructuring programs, of land and other property appropriating it for independent economic activity in production or services (i.e. workshops, petrol stations, fodder plants, small processing plants, machines),
 - utilizing lenient conditions for acquiring turnover property when renting agricultural property in regions considered endangered by especially high structural unemployment,
 - supporting workers or former workers of the ppgr, who want to begin independent activity based on the property left from the liquidated ppgr, through the guarantee of low-interest loans provided by the Job Fund,
 - participating in initiative which strive to create local credit and guarantee institutions.

6. Housing Economy

In accordance with the law of October 19, 1991, the main direction of managing the apartments taken over by the agency is their sale to the existing inhabitants. To facilitate the purchase of apartments by the current inhabitants, a preferential system of sale has been created. The market price estimated by an expert is decreased by 4% for each year of work in the ppgr (this only pertains to former workers of the ppgr) or 3% for each year of living in the apartment (pertaining mainly to all other inhabitants). The sum of the discount can be up to 90% of the established price. The sale price paid by the purchaser can be broken down into installments for a period of 10, and even 15 years, with favorable interest rates (1/5 of the discount rate). The sale of apartments is preceded by the necessary preparatory activities consisting of arranging the legal status, surveying the land, establishing a real-estate register, and establishing a price. Apart from other property, until the end of September 1994, the agency has taken over 324.6 thousand apartments, in which 37% were inhabited by workers of state-owned farms, 35% by pensioners, 25% by other inhabitants, and 3% were empty. From the apartments taken over, 89.9 thousand (28%) have been sold.

7. Difficulties and dangers occurring in the execution of the statutes

The transformation of the state sector in agriculture has been accompanied by legislative and economic difficulties, which significantly limit the extent and pace of these transformations. The most important include:

- the activities of the Agency are accompanied by the still unresolved problem of debt inherited from the liquidated ppgr. The situation, which is already extremely difficult, can be further complicated, especially since at the end of 1993 a group of ppgr's with the most difficult economic situation was taken over. Taking into account the obligations of these enterprises, the obligations of the Agency will exceed 20 trillion Plz. The fundamental direction of the steps taken by the agency is based on the implementation of settlement proceedings with the banks, which will determine the amount and timeframe of the repayment of the obligations of the farm in settlement; 500 settlements are expected with the creditors for a total sum of approximately 8 trillion Plz,

- one of the main problems restraining the privatization processes remains the lack of finances of potential tenants and buyers. This is accompanied by difficulties with getting preferential credits for the purchase of land, as well as for the purchase of turnover property and movable fixed assets,
- a new phenomena experienced by the Agency is the problem of executing the financial conditions of the signed agreements, especially the vindication of receivables stemming from the use or purchase of property,
- the current production activity in the farms of the State Treasury is and probably will be in many objects threatened as a result of the limitations in access to operating credits crucial to the maintenance and development of production,
- the economic situation of the State Treasury farms is strongly related to the social and political situation. The structural and ownership transformations are fertile ground for negative social occurrences. The experiences of the Agency to date have proven that next to the objective reasons, they were also provoked by inappropriate political appearances. The agency has not avoided criticism and surely will not avoid criticism and groundless accusations in the future. It is, however, a specific "cost" of the ownership transformations, not limited to agriculture,
- one of the major difficulties related to the privatization of property is the unresolved question of re-privatization. In certain cases the claims of the previous owners cover entire farms. This prevents the permanent management of these objects in a way foreseen in the law.

Conclusions

1. The experiences of the Agricultural Property Agency of the State Treasury to date indicate that the proper execution of the duties resulting from state policy, particularly related to restructuring and privatizing the agricultural property of the State Treasury, is possible through the diversity of the solutions used in this process. This deals with the directions of restructuring, the directions in managing the property taken over, the type of units participating in the privatization process, as well as the ways of financially supporting the privatization process.
2. The restructuring of the state property seized by the Agency fosters the development of family farms. This occurs mainly through the rental of agricultural property of the State Treasury stock with the aim of enlarging

(concentrating land) and creating new family farms. Currently about 25% of the land of the State Treasury stock is provided for this purpose. This means that to the end of 1995, about 240 thousand farms will enlarge their area on average by about 4 ha, mainly through rental. This indicates to the limited possibilities of improving the dispersed structural farming of the existing family farms through utilizing of land from the state resources. Particularly since the phenomena of enlarging will pertain mainly to regions where the dispersed structural farming of the family farms was the least hampering. Greater attention should then be placed on utilizing the turnover of land in individual agriculture. Next to family farms which will be subject to gradual adaptive processes, permanent or transitory forms of farms with various ownership relations and organization are being formed. In the next 10 years, from that total another 10% will be excluded and used for improving the dispersed structure of the existing individual farms or for creating entirely new farms to a greater degree than previously.

3. The main direction of the ownership transformation of the ppgr has become the rental of agricultural property. This results from the lower need for financial means, which allows for the participation in this process of companies encompassing workers, as well as the managerial staff, farmers, and private entrepreneurs. It is expected that the administration through rental will cover approximately 70% of the agricultural land of the State Treasury, of which 75% of the rented land will part of farms exceeding 100 ha. There will be a significant decrease in the area of a rented farm to about 600 ha, compared with the area utilized by the state enterprises (about 2200 ha). This should on the one hand allow for maintaining the benefits stemming from the economies of scale, and on the other make the system of managing smaller economic units more efficient.

4. The weaknesses of the privatization process in agriculture mainly stem from the limitations of the financial instruments supporting this process. It is necessary to utilize low-interest credits to a greater extent, especially from sources such as the Agency for the Restructuring and Modernization of Agriculture, the Job Fund, or foreign aid and loans. A lack of such means appropriated for the modernization of farms will cause a stagnation in the development of the economic units created, and therefore limit their competitiveness.

5. The main factor deforming the privatization process is the indebtedness inherited by the Agency through the liquidation of the ppgr. A lack of a solution of this problem using system instruments can have a consequence that the created economic units which have been rented out, are being administered, or the created companies will not be able to utilize their

potential resulting from the scale of production, and in effect will lead to an economic stagnation of a significant part of the farms connected with a decapitalization of fixed assets and letting a significant part of the lands lie fallow.

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